

MICHIGAN NATURAL RESOURCES TRUST FUND

BOARD OF TRUSTEES MEETING

Minutes of August 15, 2007
Lansing Center, Governor's Room, 333 E. Michigan Avenue, Lansing
9:00 AM

The meeting of the Michigan Natural Resources Trust Fund (MNRTF) Board of Trustees commenced at 9:05 AM.

The following Board members were present:

Keith Charters
Bob Garner
Lana Pollack
Frank Torre
Sam Washington

Also in attendance were various staff members of the Department of Natural Resources (DNR) and other interested parties.

I. ADOPTION OF MINUTES FOR JUNE 20, 2007.

Chairperson Garner called for the adoption of the June 20, 2007 Board meeting minutes. He stated that there was a minor correction to be made on page 14. Under the motion for adjournment, it should indicate that the motion was supported by Mr. Torre. Mr. Charters also stated that a correction needs to be made to the motion to go into an Executive Session. The first sentence should read: "Moved by Mr. Torre, supported by Mr. Charters, to go into ...".

**MOVED BY MR. WASHINGTON, SUPPORTED BY MR. CHARTERS, TO
APPROVE THE MINUTES OF THE JUNE 20, 2007 MNRTF BOARD
MEETING MINUTES, WITH INDICATED CHANGES. PASSED.**

II. ADOPTION OF AGENDA FOR AUGUST 15, 2007.

Chairperson Garner called for the adoption of the agenda for the August 15, 2007 Board meeting.

**MOVED BY MR. WASHINGTON, SUPPORTED BY MR. TORRE, TO
APPROVE THE AGENDA OF THE AUGUST 15, 2007 MNRTF BOARD
MEETING. PASSED.**

III. PUBLIC APPEARANCES.

Mr. Glen Chown, Executive Director, Grand Traverse Regional Land Conservancy – TF05-132, CMS Arcadia/Green Point Dunes, Phase III – DNR, Executive Office

Mr. Glen Chown, Executive Director, Grand Traverse Regional Land Conservancy, advised the Board that last week the final phase of the CMS Arcadia/Green Point Dunes development and public access rights project was closed. The project has officially been completed. He wished to thank the MNRTF Board and DNR staff for their assistance with the accomplishments for completion.

Mr. Chown further stated that this project was a unique private-public partnership, going back five or six years. The fundraising phase of the project is 100 percent complete, and we are now moving forward with the stewardship portion of making the property available to the public.

Mr. Chown provided handouts for the Board's information.

Mr. Daniel F. Herringa, Council Member and Mayor Protempore, Village of Lake Ann – 07-024, Lake Ann Lakefront Park Acquisition

Mr. Daniel F. Herringa, Council Member and Mayor Protempore, Village of Lake Ann, provided the Board with an update of the Lake Ann Lakefront Park Acquisition project (07-024). He stated that the village has raised \$65,000 towards their match. In addition, there have been donations of sand and gravel, as well as many volunteers raking the beach and other tasks.

The village is hoping to develop the property for a beachfront park with no boat launch. It will strictly be for swimming. There has never been a public beach on Lake Ann. There is a boat launch on the back side of the lake. This boat launch is not conducive for swimming.

Mr. Herringa outlined accomplishments that have been made to Burnett Park, the village's local park. He provided a brochure outlining the proposed acquisition project for the Board's information.

Mr. Klaus Heinert, Member, Township Parks and Recreation Commission; and Ms. Derith Smith, Supervisor, Elmwood Township – 07-039, DeYoung Natural Area Conservation Easement

Mr. Klaus Heinert, a member of Elmwood Township Parks and Recreation Commission; and Ms. Derith Smith, Township Supervisor, made a presentation in support of 07-039, DeYoung Natural Area Conservation Easement. Over the last three years there has been some major partnering with groups to look at the resource base in Leelanau County and Elmwood Township.

The area is referred to as the "Gateway to the Leelanau." The Michigan Department of Transportation (MDOT) has designated the entire M-22 corridor as a scenic heritage route. Since this route is in Elmwood Township, they feel an increased responsibility to be part of the "gateway." The TART trail runs through the corridor as well.

When the recreation planning proceeded, it was realized the township had a waterfront facility which is highly used for recreation in an urbanized area. There is also a recreational park that the township citizens and others use heavily.

Mr. Heinert stated the township has an opportunity of almost a mile on Cedar Lake, which is just behind M-22, to create a natural resources preserve. This property is in the "gateway" area.

Mr. Washington asked what the source was for the \$600,000 match. Ms. Smith responded that it is made up of private donations. Mr. Brian Price, Executive Director, Leelanau Conservancy, added that the conservancy is committed to the \$600,000 match. Part of the match is in appraised value, the difference between the development rights, which is about \$200,000; and \$400,000 is cash match. Mr. Washington asked if there was any township funds involved. Mr. Price responded no.

Mr. Charters asked what the total cost was in fee. Mr. Price responded \$1.81 million. The appraised value is just over \$2 million for the property. The value of the development rights with the initial appraisal right now is \$1.6 million. Mr. Charters said it appeared that the value of the land in fee is \$2 million, but the development rights are approximately \$1.6 million.

Mr. Charters stated that the property has already been purchased by the conservancy. It appears that the MNRTF Board is being asked to reimburse the conservancy for the purchase to Elmwood Township. If this project were approved, the MNRTF would be buying the development rights to a piece of property bought by the conservancy to turn over to Elmwood Township. Mr. Price responded that the conservancy exercised its option because it had to. The property was in an estate and had to be sold quickly. From November of 2005 to June of 2006, the conservancy researched if there was broad public support in the township for the property and if private fundraising goals could be met.

Mr. Charters asked if the township had the authority in its zoning abilities, rather than putting a conservation easement on the property, which would protect it for perpetuity from development, to rezone it? Ms. Smith responded not currently. The township is in the process of updating their zoning rules. When the conservancy approached the township regarding this property, they were informed that the township did not have the resources to purchase it or assist in the match. The township was thrilled when the conservancy came up with an option that the township felt would work.

Ms. Smith stated that she read through the minutes of the last MNRTF Board meeting and there seemed to be some concern that the township was not supportive of this project. In fact, the township mentioned that if the project can be structured where they did not have a financial obligation, they were thrilled with the project. There was much public support and the project had been included in the township's recreation plan. Chairperson Garner never got the impression that the township was not supportive of this project.

Ms. Pollack stated that she visited the property last week. Putting aside the order in which the property was acquired and application made to the MNRTF, it is the perfect site in terms of what the MNRTF is trying to do. It is a spectacular area, with a trail that is heavily used. It has a wonderful inland lake.

Ms. Pollack is sympathetic to the project, but she is also sympathetic to the issues that Mr. Charters has raised. The Board does not want to encourage communities to “act first and ask later” on properties. The Board and DNR does partner with conservancies as they are more nimble than we can be. She wondered if this project was approved, what kind of concerns or rules would be raised or if this would be precedent-setting. Mr. Charters responded that historically conservancies have been wonderful partners, but in this instance he’s wondering if the Board would be “putting the cart before the horse.”

Ms. Pollack wondered if the Board has funded projects between conservancies before. Mr. James Wood, Manager, Grants Management, DNR, responded that there is a little bit of a precedent-setting issue here. The DNR has in the past, in the example of the Arcadia Dunes project, stepped forward in a partnership with a conservancy. The Elmwood Township project is a little different as it is a local unit of government buying a conservation easement where a conservancy has already purchased the property. He does not believe that the MNRTF has assisted a local unit purchase a conservation easement over conservancy-owned property. Ms. Linda Hegstrom, Grant Coordinator, Grants Management, DNR, responded that development rights were acquired by Peninsula Township, Grand Traverse County (Old Mission project). Mr. Wood acknowledged the Old Mission project, noting that it was a different scenario than the Elmwood Township project.

Ms. Pollack asked about the order of how the development rights would be acquired. Mr. Charters responded, as he brought up at the last Board meeting, that the issue of buying development rights from a piece of property that the conservancy owns is an issue. He also is concerned about MNRTF projects in the future that are or will be funded in phases.

Mr. Washington stated that he and other Board members have this concern: There have been a number of things over the last two or three years where the Board has felt pressured to approve projects as a result of public press releases or legislative involvement. If anyone thinks that the Board is going to be influenced or pressured to fund a certain project may be in for a shock. The Board’s position has always been how to best spend the public money in such a way that the public receives the largest benefit from it. The concerns Mr. Charters brought up are when the assumption comes that the Board is going to follow along and approve a project because the purchase has already been made. That is when it starts getting dangerous. Perhaps it would be better to inform the Board of a potential acquisition before a purchase is made, to get an idea of whether they would possibly recommend funding.

Mr. Price responded that he agrees with these suggestions and if there had been a mechanism or guidelines for the conservancy to follow, this would have been done. This is a project in process as they have a bank loan on it. The conservancy has title ownership of the property, but it is not theirs until it is paid for. They make no assumptions and are not trying to pressure the Board in any way. They thought this was a competitive project, and if they did not feel like it was a competitive project, would not have presented it to the Board. The conservancy is willing to work with the MNRTF Board and DNR staff to restructure the project. Perhaps they could have found someone to stand in and exercise their option for the property. If a private individual owned the property, there wouldn’t be the concerns identified.

Ms. Smith added that the township could have made the Board's job easier simply through communication. In the future, when exploring alternatives to financing and partnerships, communication is going to become more important.

Mr. Dale Flaherty, "Concerned Citizens of Lake Ann" – 07-024, Lake Ann Lakefront Park Acquisition, Village of Lake Ann

Mr. Dale Flaherty, representing the "Concerned Citizens of Lake Ann", made a presentation in opposition to 07-024, Lake Ann Lakefront Park Acquisition, Village of Lake Ann.

Mr. Flaherty feels the lakefront park is a good idea, but in the wrong location. There would only be 175 feet of lake frontage. Across the lake at the Lake Ann State Campground there is approximately 2500 feet of frontage already owned by the State of Michigan. The public lake frontage is only 1.7 miles from the village. The state property would be a much more cost-effective use of public funds and would have wider public support.

The village has committed \$20,000 from the general fund for the purchase of the property; however, an article that appeared today in the "Benzie County Record Patriot" newspaper, Mayor Protempore Dan Herringa states: "No village tax money will be used for the beach project or towards maintenance. These expenses will be taken care of with fundraisers, not tax dollars." The question is: Has the village really committed \$20,000 from the general fund?

The proposed swim beach is a residential lot surrounded by residential homes. Residential property is not a natural habitat to be preserved. The residents will be subjected to noise, invasion of privacy, noxious odors from the proposed rustic restrooms and the peace and quiet that they have enjoyed for many years.

The proposed park will have twelve parking spaces which would include two handicapped spaces. Therefore, Maple Street and the adjoining side street will become overflow parking spots. The parking situation would cause a dangerous situation for people having to walk across the road to get to the swim beach. Many vehicles travel above the 25 MPH speed limit. Also, more parking on Maple Street will result in the loss of the existing bicycle path that is along the street.

The grant application expresses that trees by the shore would create quite an oasis. It also states that the village intends to plant more trees and bushes on the property. As seen from the photographs provided to the Board, the village is removing trees along the shoreline. In addition, truckloads of sand have been dumped near the shoreline. There are no erosion or sanitation control barriers to protect the runoff from going into Lake Ann.

The proposed project does not have the support of over half the village homeowners. The "Concerned Citizens of Lake Ann" represent the majority of residents and property owners who are against the proposed Lake Ann Lakefront Park acquisition. They urge to not recommend the project for funding.

Ms. Pollack asked if there were some access issues in terms of steps in the area. Mr. Flaherty responded that there is an area in the state property that could be made into a swim beach. In the proposed acquisition, users would have to go down steps.

Chairperson Garner asked where would be a good place to develop a swim beach in the village. Mr. Flaherty pointed out a possible site on the map that was provided.

Mr. Torre asked about the trees being cut down. Mr. Flaherty thought the trees were to be preserved and now they are being cut down. Mr. Torre asked if the homeowners were cutting them down. Mr. Flaherty assumed they were the homeowners. Mr. Mark Knauss, President of the Village of Lake Ann, responded that the trees were being cut down by the property owners. The trees along the shoreline are a wet area.

Chairperson Garner stated that the Board looks at any chance it can to get public access on a lake, and makes it a high priority.

Mr. Jim Supina, "Concerned Citizens of Lake Ann" – 07-024, Lake Ann Lakefront Park Acquisition, Village of Lake Ann

Mr. Jim Supina, representing the "Concerned Citizens of Lake Ann", made a presentation in opposition to 07-024, Lake Ann Lakefront Park Acquisition, Village of Lake Ann. The village is asking for a grant based on an appraisal of \$660,000. Mr. Supina is a licensed real estate salesperson and has sold numerous properties on Lake Ann over the years. He made comments regarding the inaccuracy of the appraisal to the Board. These include:

1. None of the sold comparable properties are located on Lake Ann, which is a 527-acre lake. All comparable properties are located on Duck Lake, which are 1,930 in size. As a general rule, the larger the lake, the higher the value for a running lakefront foot lot.
2. The appraiser used a 3% appreciation rate on top of these values to indicate a future market value for 8/15/08. Michigan is in a depressed real estate market at the current time. The appraiser indicated that the estimated time on the market for these parcels is 3 to 5 months. Mr. Supina provided the Board with a spread sheet which indicated the current real estate conditions and shows the amount of inventory and anticipated time on the market. Although the figures relate to single family homes, it is a good indicator of the real estate market in the area in general. Currently there are 6,000 lots for sale.
3. Even though the property should have been appraised as a single parcel, the village requested that it be appraised as if it would be split into five separate parcels with two direct water frontage parcels and three parcels with shared frontage. This would have a tendency to inflate the value of the property. The parcel has 175 feet of direct frontage on Lake Ann. The appraisal indicates that each parcel would have 82 feet of frontage, for a total of 164 feet. That would leave 11 feet for the three shared frontage parcels. This is in direct violation of the Lake Ann Zoning Ordinance which states that the first shared frontage lot shall have 50 feet of direct frontage and 25 feet for every additional lot totaling 100 feet for the shared lots. The numbers do not compute.

Mr. Supina further stated that the current owner, Gardner Klaasen, received permission from the Lake Ann Zoning Administrator, Bill Rennie, to split the property into five parcels. Mr. Supina advised the Board that he is the current Zoning Board of Appeals Chairman for the Village of Lake Ann. In the event that Bill Rennie issues a land use permit for these parcel splits, Mr. Supina will initiate a board of appeals hearing to challenge the action.

Mr. Supina also stated that as for the current value for this property, the Almira Township Assessor indicated that the current value of the real property is \$430,400. This figure does not include the buildings that will be torn down or removed from the site. This indicates a value of \$2,459 per frontage foot. The assessor's value of the adjacent parcels averages \$2,549 per front foot. This would give the property a value of \$446,075. Mr. Supina also provided the Board with tax reports for the property. It would appear that the true value of the property is somewhat less than what the buyer paid for it, which was \$550,000.

Ms. Pollack asked how long the current property owner has had the property. Mr. Supina responded about a year. The property owner is holding it for the village. Ms. Pollack asked if he purchased the property with the intention of selling it to the village. Mr. Supina responded yes. Ms. Pollack asked how much he purchased the property for. Mr. Supina responded \$550,000 and is selling it for \$685,000.

At this point, Mr. Wood introduced Grants Management staff and Mr. Dennis Fedewa, Chief Deputy, to the audience.

IV. OLD BUSINESS.

2007 Application Review – August 1 Acquisition Applications

Ms. Deborah Apostol, Unit Manager, Recreation Grants Unit, Grants Management, DNR, outlined the preliminary evaluation sheets for all 2007 grant applications (139 total) that have been submitted by the April 2, 2007 deadline. The Board has been provided with copies of all evaluations today (white notebook). Staff arrived at these preliminary scores by doing site visits and reviewing all documentation that has been provided to them by the applicants. All applicants are provided a copy of their preliminary evaluation. Applicants then will have the opportunity to improve their score, based on staff's re-evaluation. If the Board has any questions, they can contact the Grant Coordinator in Grants Management involved with the project, or Ms. Apostol.

Ms. Apostol further stated that where no comments were indicated on the form, it meant the applicant had received the maximum amount of points. Where a "0" was indicated for the score, that indicated the project was ineligible and did not receive any points. Ms. Apostol also stated that the Board has received a sample letter that was sent to each applicant for their information. This was provided with the evaluation sheets. All information needed from the applicants to improve their score is due by October 5, 2007.

Ms. Apostol pointed out at this time the preliminary evaluation is advisory information to the applicant only and is not to be released as public information. It is considered privileged communication.

Once staff receives the supplemental information from the applicant, staff will re-evaluate and revise the score accordingly. The Board will receive another set of information containing only the remaining deficiencies.

Mr. Charters stated that this information was excellent and is important information to provide to the applicants. He feels it is very important that the applicant knows how their project scored prior to the night before the decision-making Board meeting in December. Mr. Charters expressed his kudos to the staff for their excellent work.

Ms. Pollack also appreciated that progress has been made by the applicants indicating whether there will be a fee charged for using their park or if the public can use it for free.

Chairperson Garner also appreciated staff's work on the preliminary evaluations.

Mr. Washington expressed his appreciation of staff's work. He also asked what the total amounts of requests were. Ms. Apostol responded that in the second round of acquisition applications, (deadline was August 1), a total of 14 applications (11 local and 3 state) were received, totaling almost \$14 million. The grand total of all applications received for 2007 consideration was 153 applications, totaling approximately \$80 million. The Board will receive the summary sheets, maps and need statements for the 14 new acquisitions within a week.

Mr. Charters asked what the DNR's total request was. Ms. Apostol responded the DNR requested \$7 million in the second round of applications. Mr. Charters asked who the Board could contact if they had questions on the DNR projects. Mr. David Freed, Chief, Office of Land and Facilities, responded they could contact him.

V. NEW BUSINESS.

MDOT Bridge Project in Village of Hillman – **TEMPORARY CHANGE OF USE**

Mr. Wood outlined the MDOT (Michigan Department of Transportation) bridge project in the village of Hillman for the Board's information. This request would be for a temporary change of use of a project (Emerick Park) in the village of Hillman funded with MNRTF funding.

MDOT has determined that the replacement of the old M-32 bridge over the Thunder Bay River in the village of Hillman is necessary. They have selected a preferred alternative to replace the bridge on its existing alignment. To keep M-32 open to traffic during the demolition and re-construction, MDOT proposes to install a temporary bridge near the old bridge's location and construct temporary approaches to reroute traffic. One of the bridge approaches would affect the more recently developed areas of Emerick Park of Tripp Field and Riverside Park. When MDOT completes construction and the new bridge is open for traffic, the temporary bridge and approaches will not be removed. MDOT will restore the disturbed site to its original condition, or better.

The village concurs with this temporary change of use.

Staff recommends that the Board approve the temporary change of use.

**MOVED BY MS. POLLACK, SUPPORTED BY MR. WASHINGTON, TO
APPROVE THE TEMPORARY CHANGE OF USE FOR THE MICHIGAN
DEPARTMENT OF TRANSPORTATION TO CONSTRUCT A TEMPORARY
BRIDGE IN EMERICK PARK, VILLAGE OF HILLMAN (TF97-048). PASSED.**

VI. STATUS REPORTS.

Financial Report

Mr. Wood briefly outlined the financial report that had been provided to the Board in their packet of information. The 2008 budget has not been approved to date, so these figures are estimates of what funding will be.

Mr. Charters asked about the 2006 projects, if they had legislatively been approved. Mr. Wood responded that they had not.

Chairperson Garner announced for the audience that, at this point, it is estimated that for 2007 the MNRTF will have approximately \$30 million for grants.

MNRTF Lump Sum and Line Item Department Projects

Mr. Wood briefly outlined the MNRTF lump sum and line item Department projects report for the Board. This report indicates where DNR divisions have been making expenditures on their projects.

Mr. Charters asked about the Brule/Menominee River Corridor Initiative project (04-129), Forest, Mineral and Fire Management Division, and wondered why this was still open. Mr. Ed Meadows, Manager, Real Estate Services, Office of Land and Facilities (OLAF), DNR, responded that the seller prefers to not proceed until they identify property for exchange. Staff has been helping them find such property.

VII. OTHER MATTERS AS ARE PROPERLY BROUGHT BEFORE THE BOARD.

None.

VIII. ANNOUNCEMENTS.

The next meeting of the Michigan Natural Resources Trust Fund Board is scheduled for 9:00 AM, Wednesday, October 17, 2007, City of Bay City, City Hall, 301 Washington Avenue, Bay City, Michigan.

ADJOURNMENT.

Chairperson Garner stated that upon adjournment of the regular MNRTF Board meeting, there will be a 10- to 15-minute recess. The "special session" MNRTF Board meeting will then commence.

**MOVED BY MR. CHARTERS, SUPPORTED BY MR. TORRE, TO
ADJOURN THE MEETING. PASSED.**

The regular MNRTF meeting was adjourned at 10:15 AM.

SPECIAL SESSION MNRTF MEETING

The “special session” MNRTF Board meeting commenced at 10:40 AM.

Chairperson Garner stated that what the Board would like to do is spend time discussing trends in land values and trends in revenue. Three or four years ago a special session was held where Mr. Bill Rustem was the moderator. At that time it was discussed where the MNRTF should be looking in the future and its finances, including bonding. Economically things have substantially changed since then. The Board would like to discuss today where property values are going in the state and what alternatives should we be looking at. We need to look at rights in lands instead of acquiring land in fee simple.

At this point, Chairperson Garner re-introduced Mr. Wood, who will outline the presentations.

Mr. Wood stated that there will be two presentations today. Mr. Freed and his staff will be discussing land values. Following the land values discussion, Mr. Wood will present a PowerPoint presentation and discuss revenues of the MNRTF.

At this point, Mr. Freed introduced his staff who will be assisting him in the land values presentation: Mr. Ed Meadows, Manager, Real Estate Services Section; and Mr. Ken Stock, Review Appraiser. As appraisals come in the section, Mr. Stock reviews them and asks for additional information, if needed, in order to comply with all federal and state statutes.

Mr. Freed informed the Board that the Real Estate Services Section has developed an outline of where they perceive land values going in the future. A handout was provided to the Board. The outline is divided up into the following:

- Observations-Trends of Real Estate and Appraising Land
- Housing Market vs Recreational Land Market
- Observations/Trends/Prospects in Michigan Recreational Lands
 - Upper Peninsula
 - Western Upper Peninsula
 - Eastern Upper Peninsula
 - Northern Lower Peninsula
 - Southern Lower Peninsula
 - Southeastern Lower Peninsula
- Waterfront Property
- Conclusions

Mr. Meadows continued the presentation. Where we are right now in Michigan is that the reaction of most sellers in the current market is to decline offers. Generally speaking, the value of property generally does go up. What happens is that after a period of time when sellers begin to realize that that is not the case, they begin to

reconsider. What happens then is there is a glut of listings on the market which is what we are seeing today.

Because the audience did not have a copy of the handout, Chairperson Garner read parts of it into the record.

Observations-Trends of Real Estate and Appraising Land:

- Sellers are very aware real estate is supposed to be a good investment, and unless under duress, tend to believe the market will come back even stronger in a reasonable period.
- Because real estate has traditionally been considered one of the best investment opportunities, it will take many months (or longer) before sellers accept the reality of an actual loss in value.
- Loss in real estate value overall is rare and generally caused by an external event such as contamination, rezoning, negative adjacent uses, etc. – not a perceived “short-term” economic downturn.
- The market’s reaction in a downturn is a drop in buyer/seller transactions, not prices, which creates the glut of listings.
- Many appraisers have not been applying any of the usual time-price adjustments to recreational land sale comparables beginning January 2006 to the present.

Chairperson Garner asked about appraisers not applying any of the usual time-price adjustments to recreation land sale comparables. Mr. Meadows responded in most parts of the state the appraisers are not indicating an increase in adjustments for time. What we are seeing is the market has generally been “flat” since about 2004 for recreational properties of certain types, other than waterfront properties. Mr. Stock added that property owners really don’t have the information on the value of the property. The value might actually be increasing, but they don’t know it yet.

Housing Market vs Recreational Land Market:

- When people read about the real estate market, most stories relate to “starts and sales” of mid-range housing, not the market in which the DNR operates.
- It should not be assumed a drop in residential housing starts/sales affects everything negatively. In actuality it aids in diminishing the existing housing inventory – moving that market to the forefront.

Mr. Meadows outlined some of the regions of the state where the DNR is actively purchasing or selling property. The DNR is very active in the real estate market in the Upper Peninsula. There are a large number of appraisers in the private sector that the DNR contracts with. The values in the Upper Peninsula are divided up into three categories.

Central Upper Peninsula:

This area attracts large numbers of visitors. Many evolve into buyers in search of reasonably priced recreational forestland (hunting land). Major land companies in the area are actively trying to dispose of their properties and the market for these types of properties are very good. The market is increasing at about 10 percent per year, excluding waterfront properties.

Western Upper Peninsula:

Price adjustments used on comparable sales are around 10 percent per year. Many buyers are coming from out of state.

Eastern Upper Peninsula:

Properties in this area have different topography and market places. Wetlands are much more prevalent. This market is holding steady with a 5 percent increase.

Mr. Meadows continued to outline the other regions of the state.

Northern Lower Peninsula:

Prices for recreational lands are relatively stable, with one exception--the northwestern lower portion. This region is still seeing prices influenced from buyers out of the area who are willing to pay more for lands that are big enough for hunting. There were some appraisals done in Emmet County where acreage parcels were dispersed throughout the county. One batch of land was appraised at \$1100 per acre; another \$3400 per acre, and yet another at \$5000 per acre. This was the same appraisal and same appraiser and same county. The \$5000 per acre property was downtown, developable and next to a subdivision. The \$1100 per acre property was wetlands with no legal access. The \$3400 acre was next to an area that had an easement on it for airport purposes, so it is evident land values can vary widely for many reasons.

Chairperson Garner asked if the DNR has noticed a trend to purchase smaller acres. Mr. Stock responded that that is very common. When the appraisers come up with the highest and best use, their comparables are supposed to be of that category before they adjust for size. In the Upper Peninsula, you can get land in some areas for \$500-600 per acre, and smaller pieces go for more. The larger pieces of property might go to hunting clubs. Size adjustments are very common in appraisals.

Mr. Stock added that buyers from Wisconsin are supporting a lot of the Upper Peninsula properties, especially in the western portion.

Southern Lower Peninsula:

The market is very mixed in southern Michigan where land values are driven by the potential for residential and commercial development. The development market is way down. There is a fair number of sizeable acreage properties that the DNR would like to acquire. The number of unsolicited offers of available land seems to have increased a bit.

In two of three appraisal reports selected for examples, the appraiser has decided not to include a time adjustment even though some sales date back to October 2005. Most appraisals use sale comparables in the range of one to three years old.

Ms. Pollack asked if land could be acquired cheaper than what was offered two or three years ago. Mr. Meadows stated that it all depends on the parcel and what comes through the priority-setting process for the agency to buy. As far as purchasing the property for the cost of what it was two or three years ago, that remains to be seen. Mr. Freed added that it will be the seller's expectations and if the additional time will start to put pressure on the seller, we may see a downward trend.

Chairperson Garner asked when we would know what today is really like in terms of the price of property. Will it take two or three years? Mr. Stock responded yes. Waterfront property is going to benefit most during the downturn, because so much of it is purchased by out-of-state buyers. These properties are a completely different market, as they purchase the property for vacation homes or hunting areas.

Chairperson Garner asked if the rate of increase on Lake Michigan should diminish. Mr. Stock responded it might, but what an appraiser would do is look at a resale of the property. He may get a number of sales three years from now to compare percentages. He does not feel that waterfront property is going to be affected at all.

Mr. Washington stated that no property owner is going to be selling the land for less than what they paid for it.

Ms. Pollack stated it appears that the deals from the buyer's perspective is more likely to be in southeast Michigan or more populated areas rather than recreational. Recreational values are going to hold up because people are coming from other states, but property in southeast Michigan may be depended on year-round development investments.

Mr. Washington stated that from the Board's standpoint, an important question is: In relation to the increase in revenue of MNRTF, what is the proportional relationship between that and the increase in the cost of land year after year? As the MNRTF funds appreciate through investment, how does that relate to what the increase in the cost of land is, and if that is unfavorable, is there a way around that to solve the problem so the MNRTF can at least keep pace with the increasing cost of land. Mr. Freed responded that he does not know right off what would be the rate of return that we are getting at the present time on MNRTF. Hopefully it is more than what we are currently seeing. Also, It would depend on what region of the state you are looking to purchase land.

Ms. Pollack wanted to know what the 10- or 20-year average on land appreciation would be. She feels we all agree that the "stalling out" of some types of property is temporary and that all property will continue to appreciate. Mr. Freed responded that he does not know the average at this time, but could provide this. The last bullet on the handout talks about the 1970s and 1980s when there was a slow down. During that period we did not see evidence of decreasing land values. He does not know what the exact percentage is.

Ms. Pollack would like to have information on the value that is on the market and the value of the property that the MNRTF has bought to compare that against the money that the MNRTF has earned with investment assets.

Chairperson Garner said the information contained in the handout is what the Board wanted to know about. He would like a copy included in their next meeting's materials for future reference.

Mr. Rich Bowman, The Nature Conservancy, stated that besides residential housing and recreation lands, there needs to be a third category mentioned—working lands. These are primarily farmland and forest lands. They are used for economic purposes, so their value is determined by their economical values. These lands also provide, in many cases, conservation, recreational and environmental benefits. We need to see in what direction values are moving with these properties. He agrees with the assessment of southeast Michigan properties.

Mr. Bowman also stated that you have to have a willing-buyer and willing-seller, and it is the seller's motivation and desire what they want to get from the property. In the central Upper Peninsula area, he feels there is going to be significant conservation issues in the next 20 years. There is roughly 1.9 million acres enrolled in the CFA of industrial forest lands. These lands have been owned by industrial owners for almost a century with the purpose of producing timber. In the last decade we have seen a little over 1.5 million of the 1.9 million acres change ownership for the first time in a century, with the new owners being timber investment management organizations or real estate investors. They have a business model that they have to meet and generate a return to their investors. They cannot make that rate of return on timber production, and so in the next 10 to 15 years will be looking to generate some more return on the land.

Mr. Meadows asked meeting participants if they know of sales happening in their areas that would be interesting for the DNR to know about, to contact him. In addition, he would like to know about inholdings in DNR project areas.

Mr. Tom Bailey, Executive Director, Little Traverse Conservancy, stated he agrees with the conclusions regarding waterfront property. He also mentioned property that adjoins state lands. It seems like a lot of people who hunt want to acquire property that adjoins state lands. He has seen this property going for premium prices over similar sized properties in the recreational marketplace. He asked Mr. Stock if he has observed this trend as well. Mr. Stock responded that he has observed it in some appraisals and usually he eliminates it because there is no proof of it. There is so much available out in the marketplace that it can go either way.

Mr. Dan Stencil, Oakland County, stated that Dr. John Crompton from Texas A & M has authored several national studies on the real estate economic value of properties that are adjacent to recreation lands and facilities. His figures have been between 5 and 32 percent of similar lands that are adjacent to these properties have an increase in value.

At this point, Mr. Wood provided a PowerPoint presentation outlining MNRTF revenue and future funding. He introduced Ms. Jane Schultz from the DNR's Office of Budget and Support; Mr. Joe Frick, Chief, Office of Financial Services; and Ms. Tracie Bonner, Mineral Management Section, Forest, Mineral and Fire Management Division.

Mr. Wood advised the Board that the figures that are presented in the presentation are projections and estimates based on historical trends. Many factors are outside of the DNR's control and may cause temporary fluctuations.

The Michigan Constitution provides for the MNRTF. The fund may be used for:

- Acquisition of land and rights in land (the Board's emphasis is on providing access);
- Development of public recreation facilities; and
- Administration of the fund.

There are two streams of revenue to the fund: The interest and earnings on the fund, and the constitution allows for 1/3rd of the revenue to be used for the listed purposes until the corpus of the fund reaches \$500 million.

A frequently asked question is "How much money is in the corpus?" At the close of last fiscal year (September 30, 2006), there was \$300.3 million in the corpus. In addition, there was \$12.2 million in the Stabilization Reserve. The Stabilization Reserve was put in place in 2003 that permits the use of equity investments for the MNRTF. This reserve helps ensure the continuity of the MNRTF program and allows it to support future opportunities for access and protection to Michigan's natural resources.

Mr. Wood continued by outlining mineral revenue coming into the MNRTF. Natural gas makes up roughly 80 percent of the mineral revenue. Natural gas production has been decreasing at a rate of five to six percent per year. Currently the prices are \$6 to \$7 per thousand cubic feet (mcf) of natural gas. It is projected to remain close to this number in the foreseeable future. There have been, however, some spikes in the revenue. In 2005 natural gas hit a high of \$14 per mcf due to impacts related to Hurricane Katrina, which resulted in a higher revenue for fiscal year 2006. He further outlined fluctuations in gas and oil productions and revenue via graphs.

Mr. Wood further stated that because of the anticipated completion of the Section 29 obligation, the MNRTF is projected to see an increase in expendable mineral revenue (1/3rd of the total mineral revenue) for application year 2008 projects. The estimated 1/3rd of mineral revenue is:

- Fiscal year 2007 = \$12,150,900
- Fiscal year 2008 = \$18,129,000

Mineral revenue income to the MNRTF is projected to begin a decline after 2008.

Mr. Wood also outlined the interest and investment income of the MNRTF. As the corpus of the fund grows, investment income will grow. The available investment income is projected to exceed expendable mineral revenue (1/3rd total mineral revenue) sometime in the next three years. The Board was provided with graphs illustrating three scenarios for mineral revenue: a high estimate, low estimate and an average of the two. Based on the estimates and history, a scenario was used that assumed revenue between the average and high estimates. Staff was optimistic in anticipating that there will be an above average mineral return into the future. Using this scenario, a projection

of funds available for projects was calculated. It is anticipated that the MNRTF will reach the \$500 million cap (corpus) in the next 10 to 15 years.

Mr. Wood outlined the chart illustrating the estimated revenue for projects from 2008 to 2017. The chart shows four columns of estimates: fiscal year cycle, revenue, interest and total. In 2009 the interest earnings contribution to the amount available for projects catches up to the mineral revenue contribution. In time, the investment income portion continues to grow, reflecting a growing corpus. The mineral revenue component declines, reflecting production trends. The program continues to grow up to the point that the corpus reaches its \$500 million limit. At that point, we are working solely with the investment income on the corpus.

Mr. Charters asked if the totals include the Proposal P (Park Improvement Fund) amount (\$10 million). Mr. Wood responded that the Proposal P figure has been taken out, but what it is not reflecting are administrative costs, miscellaneous income and other factors. Mr. Frick added that these figures indicate the 1/3rd total revenue projected. The Proposal P figure is not included. If you want the total revenue, you would multiply the estimate by three.

Ms. Pollack wondered about the year 2017 revenue figure of "0", and does this indicate there will be no revenue. Mr. Wood responded that using this scenario, the \$500 million cap of the MNRTF will be reached in 2017. We will no longer have access to the 1/3rd of the total revenue coming into the fund. At this point, the MNRTF will only be allowed to use the investment income to continue the program. Mr. Frick added that once the cap is reached, revenues go into the Park Improvement Fund. Ms. Pollack asked what the cap of the Park Improvement Fund was. Mr. Frick responded that cap is \$800 million. Ms. Pollack asked when that was projected to be. Mr. Frick responded that it such a long span of time that staff has not projected when it will cap out.

Mr. Charters asked what factor was used on the investment income. Mr. Frick responded that it was a smooth interest rate or return. He believed the overall return was six percent. He believed the table represents five percent of the corpus, so five percent of the corpus plus the Stabilization Reserve is showing the interest available to spend.

Chairperson Garner stated that this information is absolutely key for the MNRTF Board. We have a number of years to decide whether this suits the needs of land acquisition or rights in land for the state and development.

Ms. Pollack asked in 2017, as the Park Improvement Fund corpus is increasing, can they use some of their funds for acquisition. Mr. Fedewa responded yes, but it would be limited for state parks and recreation areas.

Mr. Wood stated that the future growth of the MNRTF is closely tied to investment income and the growth of the corpus. Because of the importance of investment income to the amount available for projects, a strong Stabilization Reserve is essential to mitigate volatility.

Mr. Charters asked how secure the Stabilization Reserve is from any attempt by the legislature or administration to raid it. Does it come under constitutional protection? Mr. Wood responded yes.

Mr. Brian Price asked under what circumstances do the Stabilization Reserve funds get spent. Mr. Wood responded that under the current Board policy, when the investment income drops below a certain level. This is under the control of the Board.

Ms. Pollack asked if constitutionally the Board could use all the Stabilization Reserve in one year. Mr. Frick responded that constitutionally the Board could use all of it in one year.

Mr. Fedewa added that the overall intention of the MNRTF was to have the mineral revenue establish a corpus in perpetuity and living off the interest income. He also noted that interest income will soon exceed the mineral revenue income. In the event the cap is reached and a sudden drop in overall revenue is seen, the Stabilization Reserve could be used to smooth the drop over a period of time.

Ms. Pollack asked about the projection of the revenue. Is that to retrieve reserves in some of the wells that are no longer productive? Ms. Tracie Bonner, Mineral Management Section, Forest, Mineral and Fire Management Division, responded that it is based on historic production levels. The production in Michigan has been on a decline since 1998. There is constant new technology being employed. Revenue is currently included and there is some secondary recovery going on. The secondary recovery is still not going to be as high as the primary recovery. Ms. Pollack asked if the secondary recovery includes the technology of pumping CO₂ gas down to lift. She raised this question because at the Michigan Environmental Council they are being approached by at least one project that proposes to use CO₂ gas to retrieve. That raises a lot of questions that the Board has concerns about.

Mr. Fedewa stated that if there are secondary technologies that come into play, although they may not be significant in terms of the original production levels, it still would be an added amount that goes into the corpus of the MNRTF. We have not anticipated any particular metals or minerals other than oil and gas in projections. If there was a significant increase in that, we would be increasing the chances of reaching the cap much sooner.

Ms. Pollack further stated that it has been suggested that the state actually manage its mineral rights rather than lease them to the private sector, and that they could up the revenue that they would receive. Has this been considered? Ms. Bonner asked Ms. Pollack if she was referring to the royalty in-kind situation. Ms. Pollack responded yes. Ms. Bonner stated that our productions here are strictly based on the historical trend. The royalty in-kind situation would be where the state would still be getting the 1/6th value. It would be taken in gas as opposed to in cash. Ms. Pollack asked why the state couldn't get more than the 1/6th value. Ms. Bonner responded that many of the leases have already been entered into.

Ms. Pollack would like to have the DNR or the Department of Environmental Quality (DEQ), Geological Survey Division be working with us to analyze what the values are.

Ms. Pollack also asked, if you were to look back two decades and take the increase of the value of the land average, and the price of the land and the increased value on the earnings, would we be ahead or behind? Would we have purchased more property or less? Mr. Fedewa responded that we have not done an analysis of this and would take

considerable staff time to do it. Ms. Pollack said it should be done. Mr. Fedewa will investigate how labor-intensive that would be.

Ms. Pollack stated that it has been put on the table as to whether we should be bonded. Mr. Fedewa added that when you talk about bonding, you get into a whole different area. First of all, it is not tax-exempt. Also, the bond attorneys are very sensitive if it is going to be a revenue bond.

Ms. Pollack raised the question of bonding within the MNRTF. Mr. Fedewa noted that there are several issues related to bonding against the revenue stream of the fund that would be very difficult to work through, including the declining revenue projections, tax-exempt status of the bonds, federal guidelines, and arbitrage.

Chairperson Garner asked the audience to write down any thoughts they have on where they feel the MNRTF should be going and provide to it Mr. Wood.

Mr. Bailey stated that somehow something has to be done about the DNR having to pay payments in-lieu of taxes (PILT) payments on their lands. Mr. Fedewa stated that the DNR has been under a statutory moratorium where the assessments have been frozen. This is due to come off in the fiscal year 2009 budget. When that comes off, it will be a big obligation for all restricted funds that have purchased lands.

Mr. Washington asked if the state, under law, only receives revenue from minerals extracted from the ground, and if at some point, would the MNRTF benefit from using underground resources in reverse. Ms. Bonner responded that the DNR does get lease revenue from gas storage, but it is not a MNRTF asset. It goes to the General Fund.

Mr. Charters thought the constitution stated "all revenues from renewable resources." Ms. Bonner responded that storage is the use of lands, and is not a mineral. Ms. Pollack feels the MNRTF should be collecting some revenue off this.

Chairperson Garner thanked everyone for attending, and reiterated if they had any thoughts on the MNRTF to provide them to Mr. Wood. This was a very informative session and is a work in progress.

Mr. Price asked if the PowerPoint presentation could be put on the DNR's website. Mr. Wood will see that it is placed on the web.

Chairperson Garner asked for a motion to adjourn the "special session" MNRTF meeting.

**MOVED BY MR. WASHINGTON, SUPPORTED BY MR. CHARTERS,
TO ADJOURN THE "SPECIAL SESSION" MNRTF MEETING.
PASSED.**

The meeting was adjourned at 12:04 PM.

Bob Garner, Chairperson
Michigan Natural Resources Trust Fund
Board of Trustees

James Wood, Manager
Grants Management

DATE